

# **PHILIPPINES ECONOMIC WRAP-UP**

## **APRIL 28 -- MAY 04, 2001**

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**Summary**  
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Forex and equity markets held their own this week, despite violent protests against the detention of former President Estrada on corruption charges. Credit markets remain soft, however, as the longer term outlook remains uncertain. Weakness in the global economy is impacting heavily on Philippine exports, as first quarter export income fell 0.5% from 2000 figures. The weakness is penetrating domestic markets as well, with February manufacturing volumes shrinking 3% (year-on-year). Finance Secretary Burt Romulo is slated to move to Malacanang to take up the position of Executive Secretary, with Mar Roxas rumored to be moving from the Trade and Industry Department to fill Romulo's slot at Finance. Finally, we provide some new details on the continued erosion of the Philippines' balance of payments position.

These weekly reviews are available on the Embassy's web site (<http://usembassy.state.gov/manila>). We provide a longer and more detailed review of the Philippine economy in our February 2001 Economic Outlook, which is now available on our web site. The next edition of the Outlook will be released in early June.

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**Market and Policy Developments**  
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**FOREX REPORT**  
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After a weekend of rallies protesting the arrest of former President Joseph Estrada on corruption charges, the Philippine peso depreciated sharply on Monday on fears of political instability. Markets were closed on Tuesday for the Labor Day holiday, while protesters stormed the gates of the Presidential palace (but were repulsed) and the President declared a "state of rebellion" and ordered the arrests of those who incited the violence (see below). The peso recovered significantly on Wednesday as calm was quickly restored. With all of the events of the tumultuous week, the peso strengthened from its April 27 close of P50.87/US\$ to end at P50.38/US\$ on May 4.

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**Exchange Rate Tables**  
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Date	Weighted Average (Pesos/US\$)	Closing (Pesos/US\$)	Volume (Million US\$)
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MAR 26	49.221	49.185	64.8
27	49.120	49.165	87.0
28	49.208	49.215	107.5
29	49.378	49.355	157.1
30	49.371	49.510	122.4
APR 02	49.717	49.770	104.0
03	49.743	49.730	140.0
04	49.880	50.160	137.9
05	50.182	50.175	139.9
06	50.372	50.200	160.6
APR 09	Markets Closed		
10	50.017	49.900	78.5
11	49.880	49.930	69.5
12	Markets Closed		

13	Markets Closed		
APR 16	50.086	50.200	99.3
17	50.238	50.300	105.3
18	50.173	50.110	162.0
19	50.054	50.060	136.5
20	50.218	50.280	141.1
APR 23	50.441	50.480	145.5
24	50.437	50.415	105.0
25	50.546	50.550	116.2
26	50.764	51.000	132.4
27	51.218	50.870	152.2
APR 30	51.339	51.450	170.9
MAY 01	Markets Closed		
02	51.001	50.730	167.5
03	50.459	50.280	149.2
04	50.349	50.380	81.3

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Source: Bankers Association of the Philippines

# **CREDIT MARKET REPORT**

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At the April 30 auction of Treasury bills, there were fears among traders that the central bank would boost its policy rates in an effort to shore up the deteriorating peso. In response, rates on the 91-day T-bill rose 24.7 basis points to 10.102%. The interest rate on the 182-day bill rose 36.5 basis points to 11.324%; and the interest rate on the 364-day bill climbed 35.7 basis points to 11.725%. National Treasurer Sergio Edeza (as well as many traders) said that fears of political instability also led to higher bids at the auction. Edeza claimed that the government actually was in a position to reject all the bids, but accepted the increases in an effort to "let the pressure off" and to stall momentum for further increases.

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Domestic Interest Rates (in percent)  
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## Treasury Bills

Auction Date	91 days	182 days	364 days
MAR 26	9.059	10.331	10.957
APR 02	9.611	10.479	11.026
APR 10	9.959	11.005	11.638
APR 16	10.027	no sales	no sales
APR 23	9.855	10.959	11.368
APR 30	10.102	11.324	11.725

Source: Bureau of the Treasury

## Prime Lending Rates of 14 Expanded Commercial Banks

Date of Survey	Average	Range
MAR 22	13.5156	11.25 - 14.656
MAR 28	13.0484	10.75 - 14.50
APR 05	13.1808	10.75 - 14.611
APR 19	13.4611	11.00 - 15.027
APR 23	13.3529	10.75 - 14.855
MAY 03	13.4683	11.25 - 15.102

Sources: Bangko Sentral ng Pilipinas; Press reports

## STOCK MARKET REPORT

A 2.92% drop in the value of the 33-share Philippine Stock Index (PHISIX) on April 30 was wiped out by a 4% increase in the PHISIX on May 2 as investors expressed their optimism based on the prompt restoration of order brought about by President Macapagal-Arroyo. Trading volumes remain extremely modest; less than P500 million worth of stocks changed hands in an average trading session this week; in April 1999 the average daily value of shares traded was more than six times that (P3.278 billion). Overall, from its close of 1420.36 on April 27, the PHISIX rose 1.56% to end the week at 1442.46 on May 4.

Philippine Stock Exchange Index (PHISIX) and  
Value of Shares Traded

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Date      PHISIX      Value
Close      (Million pesos)
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MAR 26    1448.37      586
27         1446.99      401
28         1451.55      475
29         1430.16      346
30         1446.40      438

APR 02     1439.05      326
03         1452.26      292
04         1452.15      317
05         1460.67      588
06         1471.13      713

APR 09     Markets Closed
10         1459.49      479
11         1445.26      445
12         Markets Closed
13         Markets Closed

APR 16     1453.84      236
17         1435.68      271
18         1425.97      507
19         1428.87      614
20         1428.54      411

APR 23     1437.16      259
24         1444.00      304
25         1462.18      431
26         1437.50      302
27         1420.36      398

APR 30     1378.84      446
MAY 01     Markets Closed
02         1435.88      765
03         1430.39      376
04         1442.46      405
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Source: Philippine Stock Exchange

**"A STATE OF REBELLION"**

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Following large protests that led to an attempt to storm the Presidential Palace at Malacanang on the morning of May 1, President Gloria Macapagal-Arroyo declared a "State of Rebellion". The fighting in the streets near the Palace left 6 dead (including 2 policemen). Police were able to disperse the crowds and restore order to the area late in the afternoon of May 1. Under the "State of Rebellion" several opposition politicians, including Senator Juan Ponce Enrile and former Ambassador to the United States Ernesto Maceda, along with senior police and military officials, have been arrested (or are being sought) on charges that they incited the riots and plotted the overthrow of President Macapagal-Arroyo with the intention of reinstalling former President Estrada.

Financial markets suffered on Monday due to the ongoing protests calling for the release of former President Estrada, but were closed Monday for the Labor Day holiday. On May 2, however, instead of being rattled by the unrest, markets rebounded handsomely to the show of force by the new President and the prompt restoration of order. Jittery investors are unlikely, however, to make substantial, long-term moves until the situation becomes more clear. In particular, most analysts suggest that only a trickle of foreign direct investment will reach the Philippines through the third quarter; future flows will depend on the outlook for future political stability. Interest rates are also unlikely to move down significantly until the government's fiscal situation becomes clearer.

#### **FIRST QUARTER EXPORTS DOWN 0.5% YEAR-ON-YEAR**

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According to the National Statistics Office (NSO), export receipts declined by 4% year-on-year in March, after declining by 3.3% in February. Receipts from electronic equipment and parts (down 11.5% from March 2000) also shrank for a second consecutive month, following through February's 7.5% year-on-year contraction. Cumulatively, first-quarter export revenues dropped 0.5% from 2000's comparable three-month level, with receipts from electronics (57% of total export receipts) down 4.5%

year-on-year. First-quarter merchandise exports to the U.S. and Japan -- which account for about a third of the Philippines' annual export revenues -- dipped by 32.6% from 2000's first quarter.

Given the current weakness in external markets, and the resulting impact on Philippine export earnings, both private and Philippine government analysts continue to revise downward their estimates of Philippine GDP growth in 2001. One private firm is suggesting real GDP growth could be as low as 2%. With a population growing at 2.36% annually, such slow growth will do little to further the government's stated goal of poverty alleviation.

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PHILIPPINE MERCHANDISE EXPORTS  
(In US\$ Millions)

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	January - March 2000	March 2001	Growth (%)
TOTAL EXPORTS	8,607.4	8,562.6	(0.52)
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Agro-Based Products	371.2	384.3	3.53
Forest Products	5.2	5.8	11.54
Mineral Products	181.1	123.8	(31.64)
Petroleum Products	94.8	75.2	(20.68)
Manufactures	7,731.6	7,724.3	(0.09)
Electronics Equip. & Parts	5,060.0	4,834.7	(4.45)
Others (mainly re-exports)	223.4	249.2	11.55

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Source: National Statistics Office

**FEBRUARY MANUFACTURING VOLUME DECLINES**

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The National Statistics Office's (NSO) latest Monthly Integrated Survey of Selected Industries (MISSI) showed a

3% year-on-year decline in aggregate production volume during February 2001. That performance marked a second consecutive month of negative year-on-year growth. Eight of sixteen manufacturing sub-sectors posted production declines (led by transport equipment, wearing apparel, wood/wood products, and basic metals). On the other hand, sales volume -- down 2.4% year-on-year in January - - expanded by 7.9% from its February 2000 level.

On average, the volume of production index contracted by 2.5% year-on-year during the first two months of 2001, a reversal from the 10% average expansion posted during 2000's comparable period. The results did not come as a surprise. Businesses, already struggling with rising production and operating costs as well as softening world demand for major export products, had to deal with challenges posed by escalating political uncertainties (which, among others, saw the peso drop to new lows and domestic interest rates jump). Overall, economic planning officials expect the Philippine's Gross Domestic (GDP) to have slowed further to 2.3-3.0% year-on-year growth during the first quarter (from 3.6% GDP growth during 2000's fourth quarter).

The government hopes that full-year 2001 manufacturing gross value added will muster at least 5% growth in real terms (compared to 5.6% growth during 2000) for GDP to expand by 3.8% this year. Those targets may prove challenging -- considering the worse-than-expected world economic slowdown, high domestic unemployment, pressures on the currency, and lingering political uncertainties.

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MONTHLY INTEGRATED SURVEY OF SELECTED INDUSTRIES  
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	Year-on-Year % Change Production Volume	Net Sales Volume
January 2000	12.3	10.1
February	7.7	10.5
March	2.5	10.5
April	(2.4)	8.3
May	12.6	21.0
June	13.5	8.0



July	19.7	5.7
August	9.2	13.2
September	15.9	2.9
October	20.0	3.7
November	39.7	15.8
December	8.7	7.7
January 2001	(2.4)	(2.4)
February	(3.0)	7.9

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Source: National Statistics Office

#### **FINANCE SECRETARY ROMULO TO MALACANANG?**

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President Macapagal-Arroyo suggested in a press conference on May 2 that current Secretary of Finance Alberto Romulo would be moving to take the position of Executive Secretary, replacing Renato De Villa, who is recovering from heart surgery. The President was vague as to the timing of the move, saying only that it would be 'gradual.' Current Secretary of Trade and Industry Manuel A. "Mar" Roxas has been suggested to replace Romulo at the Department of Finance.

#### **BOP UPDATE**

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According to recently released balance of payments statistics, the Philippines' January 2001 current account surplus widened by 11.9% year-on-year to \$518 million. Exports slowed to a single-digit growth rate (6%), but a smaller import bill (down 8.6%) nevertheless allowed the trade-in-goods surplus to expand to \$436 million (more than five times the January 2000 level). Still, the overall balance of payments (BOP) ended January nearly \$600 million in the red. That overall BOP position reflected a weak capital/financial account, which recorded a \$1.1 billion deficit (more than five times January 2000's \$211 million gap).

Although detailed statistics are not yet available, the Philippines' BOP position -- computed from the change in the Bangko Sentral's net international reserves -- was

estimated at \$513 million deficit as of end-March. The current account is expected to remain in surplus in 2001 despite slowed export growth because of moderate imports (partly reflecting the import-dependent nature of the country's major export products). The first quarter BOP deficit indicates the continued weakness of the capital and financial account. BSP officials told the Embassy that the BOP probably was headed for another deficit this year.